

Service Date: September 29, 1981

DEPARTMENT OF PUBLIC SERVICE REGULATION  
MONTANA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	Docket No. 81.6.60
OF THE TOWN OF THOMPSON FALL; TO	)	Order No. 4845
INCREASE WATER RATES.	)	PROPOSED ORDER

APPEARANCES

FOR THE APPLICANT:

Robert L. Fletcher, Acting City Attorney, P. O. Box 99, Thompson Falls, Montana, 59873

FOR THE INTERVENORS:

John Allen, Staff Attorney, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana, 59620

FOR THE COMMISSION:

Robert Nelson, Staff Attorney, 1227-11th Avenue, Helena, Montana, 59620

BEFORE:

Howard L. Ellis, Commissioner and Hearing Examiner

FINDINGS OF FACT

1. On June 5, 1981, the Town of Thompson Falls, (Applicant or Town) filed an application with this Commission for authority to increase rates for water service to its customers in Thompson Falls, Montana. The applicant requested an increase in operating revenues of approximately 255% constituting a revenue increase of approximately \$85,500.00.

2. On August 26, 1981, pursuant to notice of opportunity for public hearing, a hearing was held in the Town Hall, Thompson Falls, Montana. The purpose of the public hearing was to consider the merits of the applicant's proposed water rate adjustments.

3. At the public hearing, the applicant presented the following four witnesses:

Paul Stokes, Consulting Engineer  
Daniel Parks, Certified Public Accountant  
Sterling Larson, City Superintendent  
Bill Greg, City Councilman and Banker

These witnesses testified relative to: the need for the proposed capital improvements (pressure problems and fire flow inadequacies), the estimated cost of the proposed capital improvements, the financing of the proposed capital improvements, and rate structure.

4. The Montana Consumer Counsel at the public hearing presented the testimony of nine (9) public witnesses. The major concerns expressed by the public witnesses were: the magnitude of the proposed capital improvements, the ability of the Town to repay the construction funds borrowed from the Farmers Home Administration considering the Town's economic dependence on the forest industry and the forest industry's uncertain future, the need to install meters, and whether the Town had given adequate notice of the proposed improvements and rate increase.

5. The Town in its application has set forth a proposed capital improvement program for the water utility. The Town proposes a construction program to be funded from a Farmers Home Administration loan having a term of forty (40) years and carrying an interest rate of 5%.

6. The following table sets out the proposed improvements to the water system and the estimated cost of the improvement under consideration in this docket by priority as testified to by the Town's consulting engineer:

CAPITAL IMPROVEMENT PROGRAM

1.	Concrete Storage Tank	\$233,183.00
2.	Distribution System Improvements	486,952.00
3.	Test Well and Water Supply Well	14,165.00
4.	Pump Station	38,500.00
5.	Water Service Meters	<u>199,280.00</u>
	Total	\$972,080.00

7. There was general agreement among the parties testifying in this docket that a need exists for improvements to the water system. The parties testifying in opposition to the

proposed increase questioned the necessity of making all improvements as outlined by the Town in its application and whether certain improvements could be deferred until a later date. The Town in examining the need for improvements to the water system has looked at the system as a whole and based upon the engineering reports has determined that the proposed improvements will serve to alleviate the problems occurring in the existing system. There is one area of the proposed capital improvement program that could possibly be eliminated, that being the water service meters.

8. Under the rules of the Farmers Home Administration (FHA), water facilities being financed by FHA must have metering devices for each connection. The rules provide, however, that an exception to this requirement may be granted by the FHA State Director. To qualify for this exception, the Town would have to demonstrate that installing the meters would be a significant economic detriment and that lack of meters would not adversely affect the environment.

9. The Commission finds that the Town should make application of waiver to the State Director of FHA indicating that the proposed capital improvement program costs include \$199,280 for meter installation which constitutes 20.5% of the total. Further, the Town should point out that it is dependent upon the forest industry which is economically depressed, and that water supply is abundant.

10. If the State Director of the FHA grants waiver of the metering requirement, this Commission would be receptive to a filing by the Town to meter the system out of the current revenues of the utility. The Commission believes that metering promotes conservation and results in a user charge system that is more equitable.

11. The Commission finds that the capital improvement program as proposed by the Town is reasonably prudent and therefore accepts the improvements as outlined. The Commission also accepts the Town's estimated cost of \$972,080 as being a reasonable estimate of the construction costs pending the ruling of the State Director of FHA on waiver of metering.

12. The Town in its application proposed to borrow \$1,247,000 from FHA to finance the capital improvements. The proposed pay-back period for this loan was forty (40) years with

an annual debt service of \$79,372. Subsequent to the hearing, the Town received notification from FHA that the loan commitment was for the amount of \$975,000 at 5% having a term of forty (40) years. Due to the reduction in the loan commitment for financing, the debt service will be reduced to \$56,417 annually.

13. The Town in this case has elected to finance capital improvements to the water system by the issuance of long-term debt. It is generally accepted that the issuance of debt to be repaid over the useful life of a public improvement is the most equitable and cost effective way to pay for such improvements. It is equitable because it permits those who benefit from the use of the improvements, in this case, the users of the water system, to pay their share of the cost of the improvement. If all system improvements were to be paid for on the pay-as-you-go basis, rather than through long-term debt, only the initial user would pay the costs of the improvement, providing a "free ride" for later users. The acceptance of the FHA loan is cost effective in this case because the funds are being provided at a lower rate of interest than that obtainable anywhere else.

14. The Commission accepts an annual debt service of \$56,417 pending the ruling of the State Director of FHA on the necessity of metering the system.

15. The Commission accepts the test year utilized in this case as being a reasonable period within which to measure the expenses for the purpose of determining a fair and reasonable level of rates and accepts the Town's projection that operating expenses will be \$36,625.00.

16. There was some question as to the Town's handling and notice of the proposed rate increase and proposed capital improvements. It is not within the Commission's jurisdiction to rule on the adequacy of public notice at the local level and it therefore declines any comment.

17. The Commission in this docket recognizes a total revenue need for the Town of Thompson Falls Water Department of \$93,042 pending the determination of the State Director of FHA on the waiver of metering.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding.
2. The Commission afforded all interested parties notice of and an opportunity to participate in this proceeding.
3. The rates approved herein are just and reasonable.

ORDER

IT IS ORDERED by the Hearing Examiner, Howard L. Ellis, that the Town of Thompson Falls shall file a request of waiver of metering to the State Director of the Farmers Home Administration.

IT IS FURTHER ORDERED that the Town of Thompson Falls is authorized to file rates yielding an annual revenue of \$93,042 if the State Director of the Farmers Home Administration denies the Town's request for waiver of metering. If the waiver of metering is granted, the Town shall file rates which will recover debt service on the new loan amount from the Farmers Home Administration and the operating expenses accepted in Finding of Fact No. 15.

IT IS FURTHER ORDERED that the rate schedules authorized herein shall not be filed until the Town has received a final determination from the State Director of the Farmers Home Administration on its request of waiver of metering.

IT IS FURTHER ORDERED that the rates, pending Commission approval, shall be effective for all water service rendered on and after the first day of the first month following the completion of the loan agreement between the Town and the Farmers Home Administration.

IT IS FURTHER ORDERED, pursuant to ARM 38.2.4802, that this is a proposed order. Any party shall have the opportunity to file exceptions to this initial decision, present briefs and make oral arguments before the entire Commission, provided such exceptions, briefs and requests for oral argument are filed within twenty (20) days from the service date of this proposed order.

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IT IS FURTHER ORDERED that a full, true and correct copy of this order be sent forthwith by first class United States mail to the applicant and to all other appearances herein.

DONE at Helena, Montana, this 28th day of September, 1981.

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HOWARD L. ELLIS, Commissioner  
Hearing Examiner